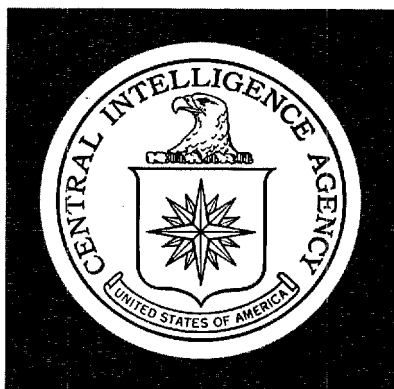


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Panama: The possibility of a military attempt to keep President-elect Arias from taking office next Tuesday appears to have subsided for the moment.

A compromise agreement reached yesterday between Arias and national guard Commandant Vallarino was accepted by a dissident group of senior guard officers who had angrily opposed Arias' reported plans to dismiss a number of them shortly after the inauguration.

According to the terms of the agreement, General Vallarino will step down by 14 October to accept an assignment in Washington as military adviser to Panama's canal treaty negotiating team. Second Commandant Pinilla then would succeed Vallarino for an interim period of several weeks before retiring and turning the top post over to Third Commandant Urrutia, Arias' original choice for the job. Meanwhile, Arias and Vallarino will "work together" on internal changes within the guard--a process which may well cause further strains between the two men.

Despite Arias' conciliatory gesture, guard leaders are still suspicious of his intentions and remain alert. Any move that appears to threaten their interests or breach the current understanding would probably result in renewed coup plotting.

In assessing the situation on the eve of the inauguration, the US Embassy believes that the present easing of tensions between Arias and the guard should permit the ceremonies to proceed as scheduled. Although some isolated acts of violence are possible, no serious threat to a peaceful presidential transition is anticipated.

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